

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 OPIC-12 SEC-03 FEA-02 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 EB-11 FPC-01

H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 DRC-01 /169 W

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R 101535Z AUG 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 2080

C O N F I D E N T I A L QUITO 5292

FOR ARA/EP

E.O. 11652: GDS

TAGS: ENRG, EINV, EC

SUBJ: ADA

REF: QUITO 5249

1. ADA'S SUMMARY AUDIT BY ARTHUR ANDERSEN & CO. TRANSMITTED REFTEL IS A BASIC DOCUMENT BEFORE THE GOE'S CABINET LEVEL COMMISSION ESTABLISHED TO DETERMINE THE AMOUNT AND MANNER OF COMPENSATION THAT GOE WILL PAY ADA. WHILE ADA IS UNDERSTANDABLY CONCERNED LEST THE GOE ARBITRARILY DISALLOW MOST OF ITS EXPENDITURES, AT THE SAME TIME THE SUMMARY AUDIT IS NOT SELF-EXPLANATORY ON, FOR EXAMPLE, THE CONTENT AND JUSTIFICATION FOR INTANGIBLE DRILLING COSTS OF \$14,882,887 AND GENERAL AND ADMINISTRATIVE COSTS OF \$2,828,629. IT IS NOT UNREASONABLE PER SE FOR A GOVERNMENT TO QUESTION, NEGOTIATE OR RULE ON CATEGORIES OF EXPENDITURE AND SUB ITEMS THEREIN BEFORE PAYING A CLAIM FOR COMPENSATION. OF COURSE, EVEN WITH STANDARD ACCOUNTING PRACTICES, THIS SUBJECT IS SO POTENTIALLY CONTENTIOUS THAT VISITING OPIC OFFICIALS HERE GIVE IT AS A CONFIDENTIAL

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REASON WHY OPIC CONFINES INSURANCE OF OIL EXPLORATION INVEST-

MENTS TO REMOVABLE PHYSICAL PROPERTY.

2. ANOTHER AREA WHICH THE COMMISSION IS UNDERSTOOD TO BE PROBING WITH ADA IS THE FINANCIAL ARRANGEMENTS WITHIN THE CONSORTIUM. ADA'S INVESTMENT IS ATTRIBUTABLE TO THE SUBSIDIARIES OF EIGHT FOREIGN FIRMS (ADA, OKC, GENERAL EXPLORATION, ULTRAMAR, SWIFT, EQUITY FUNDING, PHILLIPS AND BELL OIL GAS) OF WHOM ONLY THE FIRST FOUR NOW REMAIN IN THE CONSORTIUM. WE DO NOT KNOW WHAT ARRANGEMENTS THE DEPARTING FIRMS MADE, BUT BRITISH AMBASSADOR HERE UNDERSTANDS THAT FORMER PARTNER RIGHTS PASSED WITHOUT CONSIDERATION TO REMAINING MEMBERS. THE COMMISSION MAY BE PROBING TO DETERMINE THE ACTUAL STOCKHOLDER EXPENDITURES OF THE CONSORTIUM WITH WHICH IT IS NOW DEALING.

3. IF THE DEPARTMENT HAS HAD EXPERIENCE IN OTHER CASES OF COMPENSATION FOR OIL EXPLORATION VENTURES OUT OF WHICH PRINCIPLES OF FAIRNESS HAVE EVOLVED, THIS WOULD BE USEFUL INFORMATION TO HAVE AS THE COMPENSATION PROCESS MOVES ALONG.

BREWSTER

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NNN

Message Attributes

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